

Message Text

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S E C R E T SECTION 1 OF 2 LIMA 6524

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TAGS: MASS, EFIN, PE
SUBJECT: US ARMS FOR ECUADOR AND GERMAN SUBMARINES FOR PERU

REF: LIMA 6200

1. SUMMARY: THE GOP APPEARS TO BE MAKING A CONNECTION BETWEEN THESE TWO ISSUES; OR AT LEAST THAT HAS BEEN THE IMPLICATION CONVEYED TO ME IN RECENT TALKS WITH FOREIGN MINISTER DE LA PUENTE AND ADMIRAL PARODI. AIR MINISTER TAMAYO HAS ALSO EXPRESSED CONCERN ABOUT OUR INTENDED ARMS SALES TO ECUADOR AND FOREIGN MINISTRY UNDER SECRETARY WIELAND DELIVERED A MORE OR LESS FORMAL DEMARCHE TO ME ON THE SUBJECT TODAY. MUCH OF THIS IS SELF-SERVING. BUT THE FRUSTRATIONS AT WORK IN A HARD-PRESSED GOVERNMENT AND THE PERCEPTION HERE OF A STERN AND UNCOMPREHENDING ATTITUDE ON THE PART OF THE USG ARE ALSO FACTORS IN WHAT IS BECOMING AN INCREASINGLY IRASCIBLE REACTION TO OUR PREOCCUPATION WITH PERU'S ARMS ACQUISITIONS. WHETHER WE WILL GET A SATISFACTORY RESPONSE ON THE SUBMARINES FROM PARODI IS NOT YET CLEAR. I FAVOR IN ANY CASE TREATING THE QUESTION OF FY '78 FMS CREDIT FOR PERU IN TERMS OF THE OVERALL RELATIONSHIP BETWEEN THE TWO COUNTRIES. WE MAY BEAR IN MIND THAT THE GOP HAS, AS FAR AS I KNOW, KEPT ITS COMMITMENT NOT
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TO CONTRACT FOR NEW ARMS. AND PERUVIAN PROGRESS TOWARD DEMOCRATIZATION -- NOW- INCLUDING A SWEEPING POLITICAL AMNESTY AND THE DECISION TO RETURN THE DAILY PRESS TO PRIVATE HANDS -- HAS BEEN COMMENDABLE. A SUPPORTIVE RATHER THAN PUNITIVE USG POLICY WOULD SEEM TO ME APPROPRIATE. END SUMMARY.

2. I HAVE REPORTED ADMIRAL PARODI'S INTEREST IN PUTATIVE US ARMS TRANSFERS TO ECUADRO (REFTEL). THE AIR MINISTER, GENERAL TAMAYO, RAISED THE ISSUE WITH ME ON JULY 13 DURING OUR DISCUSSION OF THE CIVIL AIR AGREEMENT. I EXPLAINED THE NATURE OF THE VULCAN-CHAPPARAL AIR DEFENSE SYSTEM AND REVIEWED AT SOME LENGTH OUR POLICY ON ARMS TRANSFERS TO LATING AMERICA AND THE LOW LEVEL OF DELIVERIES INVOLVED.

3. ON LEARNING THAT THE VULCAN-CHAPPARAL TRANSACTION WOULD INDEED COME TO DOLS 200 MILLION OR SO, I CALLED PAROD AND TOLD HIM HIS FIGURE HAD BEEN CORRECT AFTER ALL, ADDING, HOWEVER, THAT NO GRANT OR LARGE-SCALE CREDIT WOULD BE INVOLVED. PARODI REITERATED HIS VIEW THAT THE PROBLEM HERE IS ONE OF GOOD WILL: THAT WE ARE ACCOMMODATING TO ECUADOR BUT NOT TO THE PERUVIAN NAVY. NEVERTHELESS, HE PROMISED TO SEND ME A "LITTLE PAPER" ON THE SUBMARINE SCHEDULES. THAT DOCUMENT HAS YET TO ARRIVE BUT I HAVE HOPES FOR NEXT MONDYA.

4. JULY 19 I TALKED BRIEFLY ALONE WITH THE FOREIGN MINISTER BEFORE A PL-480-SIGNING CEREMONY. HE SAID HE UNDERSTOOD I HAD AGAIN BROUGHT UP THE SUBJECT OF THE SUBMARINES WITH PARODI AND THEN ASKED ABOUT THE REPORTS OF SUBSTANTIAL US ARMS SALES TO ECUADOR. HIS RESPONSE TO MY EXPLANATION WAS THAT WE OBVIOUSLY HAD
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THE RIGHT TO SELL WHAT WE WANTED TO, BUT THAT HE FOUND OUR POLICY SOMEWHAT INCONSISTENT. HE WAS AWARE OF THE HEARINGS ON ARMS TRANSFERS TO LATIN AMERICA IN THE HIRC AND EXPRESSED RESENTLY THAT WE CONTINUE TO HARP ON SOVIET ARMS SALES TO PERU AFTER ALL THE EFFORTS HE AND THE PRESIDENT HAVE MADE TO EXPLAIN TO US THE "DEFENSIVE" NATURE OF THESE ACQUISITIONS AND THE ENTIRELY PEACEFUL INTENTIONS OF THE GOP. AT THIS POINT HE THREW IN REFERENCES OF THE KIND FAMILIAR TO THE DEPARTMENT WITH RESPECT TO OUR PUBLIC STATEMENT ON THE PERUVIAN ELECTION.

5. I REVIEWED ONCE MORE USG POLICY ON ARMS TRANSFERS TO LATIN AMERICA, NOTING THAT WE HAVE DROPPED TO FOURTH PLACE AMONG THE SUPPLIERS AND THAT WE DO NOT TRANSFER SOPHISTICAED, OFFENSIVE WEAPONRY. DE LA PUENTE REPEATED HIS COMPALINT ABOUT OUR PURPORTED OBSESSION WITH THE SOVIET ARMS QUESTION. WITH RESPECT TO THE ECUADOREAN ASPECT, HE ASSERTED THAT IT HAD BEEN VERY DIFFICULT FOR HIM TO CALM DOWN HIS MILITARY COLLEAGUES WHEN THE REPORTS FROM WASHINGTON ON THIS MATTER ARRIVED. THE MINISTER WENT ON TO SAY THAT MORALES BERMUDEZ HAS BEEN PARTICULARLY

UPSET THAT HIS EXCHANGES OF LETTERS WITH PRESIDENT CARTER HAVE NOT TURNED OUT MORE POSITIVELY AND THAT HE, DE LA PUENTE, IS PRESENTLY DRAFTING A NEW LETTER WHICH, WHILE NOT "HARD", WILL BE "FIRM."

6. UNDER SECRETARY WIELAND CALLED ME IN TODAY TO MAKE THE POINT IN MORE-OR-LESS FORMAL FASHION THAT THE ECUADOREAN ARMS ANNOUNCEMENT COMES AT AN UNFORTUNATE TIME, GIVEN THE EFFORT TO REVIVE THE AYACUCHO INITIATIVE (SEPTEL).

7. COMMENT: MUCH OF THIS OF COURSE IS SELF-SERVING AND HYPOCRITICAL. EVEN THE DENSEST OF PERUVIANS MUST KNOW WHAT HAS CAUSED THE ECUADOREANS TO GO SHOPPING FOR
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AND EXPENSIVE AIR DEFENSE SYSTEM. THE GOP HAS BEEN MOST SENSITIVE TO OUR PREOCCUPATION WITH THEIR ARMS PURCHASES AND NOW SEES A CHANCE TO TRY TO TURN THE TABLES AND PUT US ON THE DEFENSIVE. THE GAME PROBABLY SEEMS WORTH IT IN VIEW OF WHAT MUST BE A GENERAL REALIZATION IN THE GOP THAT THE USG IS NOT GOING TO OFFER MUCH BOP ASSISTANCE OR HELP IN PERSUADING THE IMF TO RELAX ITS DEMANDS. (MINISTER OF TRANSPORT VANNINI INSISTED WITH CONSIDERABLE EMOTION TO ME THE OTHER DAY THAT THE FUND'S REQUIREMENTS ON THE BUDGET DEFICIT AND GENERAL LIQUIDITY WILL "STRANGLE PERU", BANKRUPT MANY INDUSTRIES AND LEAVE THE GOVERNMENT WITH ONLY ENOUGH MONEY TO COVER SALARIES AND WAGES.)

8. ALSO AT WORK IN THIS SITUATION IS THE PSYCHOLOGY OF A GOVERNMENT BESIEGED BY PUBLIC HOSTILITY AND A SEEMINGLY ENDLESS SEA OF TROUBLES. THE FRUSTRATIONS ARISING FROM THE PROTRACTED TEACHERS' STRIKE, FOR EXAMPLE -- WHERE EVERYONE AGREES THAT HIGHER SALARIES ARE ENTIRELY JUSTIFIED, BUT FOR WHICH THE IMF'S PRESCRIPTION THERE IS SIMPLY NO MONEY -- MAKE A CERTAIN AMOUNT OF IRRATIONALITY UNDERSTANDABLE. AND ALSO, I AM PERSUADED, A NUMBER OF PERUVIAN MILITARY OFFICERS DO GENUINELY BELIEVE THAT PERU IS SURROUNDED BY HOSTILE POWERS THAT ENJOY THE SUPPORT OF THE USG.

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9. AS FOR THE POLICY IMPLICATIONS IN OUR TRANSACTION (OR TRANSACTIONS) WITH ECUADOR, I FAVORED IN THE PAST THE SALE OF DEFENSIVE ARMAMENTS TO THAT COUNTRY AND CAN STILL APPRECIATE THE UNDERLYING RATIONALE. BUT THE AMOUNT OF MONEY INVOLVED IS BOTHERSOME. IN DISCUSSIONS WITH ALMOST EVERYONE OF CONSEQUENCE HERE, INCLUDING PARTICULARLY THE CIVILIAN POLITICIANS WHO WILL BEAR THE FUTURE RESPONSIBILITY, I HAVE ARGUED THAT PERU'S ARMS PURCHASES HAVE BEEN ECONOMIC FOLLY, A HEAVY BURDEN ON THE COUNTRY'S DEVELOPMENT EFFORTS AND A CHARGE TO THE ACCOUNT OF FUTURE GENERATIONS. THE ARGUMENT HAS BEEN STRENGTHENED BY THE FACT THAT THE US HAS NOT CONTRIBUTED TO THIS SQUANDERING OF RESOURCES. PRESUMABLY, ECUADOR PRESENTLY HAS THE MONEY OR CREDIT ACCESS TO COVER THE DOLS200 MILLION OUTLAY, PLUS THE MANY OTHER MISSIONS PROGRAMMED FOR JET AIRCRAFT AND THE LIKE. BUT THAT COUNTRY'S ECONOMIC FUTURE DOES NOT LOOK VERY BRIGHT FROM HERE AT LEAST, AND I WOULD FIND IT DIFFICULT TO RESPOND TO THE ACCUSATION THAT WE ARE TAKING PART IN THE CREATION OF WHAT WILL BECOME A BURDEN ON THE ECUADOREAN PEOPLE SIMILAR TO THAT THE PERUVIAN PEOPLE ARE PRESENTLY CARRYING.

10. WE NOW HAVE INDICATIONS THAT THE GOP MAKES A CONNECTION BETWEEN OUR CONTINUING HEAVY PRESSURE ON
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THE WEST GERMAN SUBMARINE TRANSACTION AND OUR ANNOUNCED INTENTION TO SELL ITS NORTHERN NEIGHBOR AN ARMS SYSTEM OF- ROUGHLY THE SAME VALUE. THE LINKAGE IS PERHAPS UNREASONABLE, BUT NOT UNNATURAL. I FEAR THAT THIS INTRINSICALLY SECONDARY ISSUE IS ABOUT TO BECOME ANOTHER IN THE LONG SERIES OF ACRIMONIOUS MIS-UNDERSTANDINGS WE HAVE HAD WITH THE PERUVIAN MILITARY GOING BACK TO THE MID-60'S.

1. IF PARODI'S RESPONSE, WHEN AND IF IT COMES, IS UNSATISFACTORY, WE SHOULD RESERVE THE PROBLEM FOR FURTHER DISCUSSION IN THE NEGOTIATIONS ON DEBT RESCHEDULING. THAT IS WHERE IT BELONGS -- AND WHERE I HAVE TOLD THE GOP IT WILL PROBABLY ARISE. A PUNITIVE REACTION ON OUR PART UNRELATED TO THE REAL ISSUE OF PERU'S CAPACITY TO REPAY ITS DEBTS WOULD SEEM TO ME TO SERVE LITTLE PURPOSE BEYOND FURTHER EXACERBATING THE STRAINGS IN OUR RELATIONS. (THE GERMAN AMBASSADOR EXPRESSED TO ME YESTERDAY HIS DOUBTS THAT THE SUBMARINE CONTRACTS COULD BE ALTERED SUBSTANTIALLY IN ANY CASE WITHOUT PERUVIAN PAYMENT OF HEAVY PENALTIES.)

12. WITH RESPECT TO FY '78 FMS CREDIT FOR PERU, I BELIEVE WE SHOULD MAKE THE DECISION ON THE BASIS OF WHAT IS SENSIBLE IN TERMS OF THE RELATIONSHIP BETWEEN THE TWO COUNTRIES. I FAVOR OFFERING THE CREIDT-ESSENTIALLY BECAUSE THE GOP HAS CONTINUED TO MOVE IN THE DIRECTOR WE SAID WE WANTED IT TO MOVE IN:

--HONEST ELECTIONS HAVE BEEN HELD AND AN ELECTED ASSEMBLY IS COMING INTO BEING;

--A COMPREHENSIVE POLITICAL AMNESTY HAS BEEN DECREED;
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--THE PRESS IS BEING RETURNED TO PRIVATE HANDS;

--THE COMMITMENT NOT TO CONTRACT FOR NEW ARMS HAS BEEN KEPT, AND

--A GENUINE EFFORT TO STRAIGHTEN OUT PERU'S PERILOUS FINANCIAL SITUATION IS UNDERWAY -- AN EFFORT ACCOMPANIED BY SOCIAL COSTS OF A MUCH HIGHER ORDER THAN SEEMS TO BE APPRECIATED ABROAD.

IN THE CIRCUMSTANCES, A US POLICY OF ENCOURAGEMENT AND UNDERSTANDING STRIKES ME AS BETTER CALCULATED TO ACHIEVE OUR OBJECTIVES THAN ONE OF CENSURE AND CASTIGATION. AS FOR NEXT YEAR, I CONTINUE TO BELIEVE AS I SAID IN WASHINGTON THAT THE FY '79 FMS ISSUE WILL HAVE TO BE RELATED TO THE ANTICIPATED PERUVIAN CALL FOR DEBT RESCHEDULING.

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